

## Message Text

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ACTION EB-07

INFO OCT-01 IO-13 ISO-00 AGR-05 L-03 FRB-03 OMB-01  
ITC-01 SP-02 USIA-06 AID-05 CIAE-00 COME-00  
INR-07 LAB-04 NSAE-00 OIC-02 EPG-02 SIL-01 STR-04  
TRSE-00 CEA-01 AF-10 ARA-06 EA-07 EUR-12 NEA-10  
/113 W

-----121751Z 059408 /44

R 121321Z MAY 77

FM USMISSION GENEVA

TO SECSTATE WASHDC 7283

INFO ALL EC CAPITALS

USMISSION USUN NEW YORK

LIMITED OFFICIAL USE SECTION 1 OF 2 GENEVA 3650

E.O. 11652: N/A

TAGS: UNCTAD, ETRD

SUBJECT: UN SUGAR NEGOTIATIONS: EEC NON-PARTICIPATION

DEPT FOR EB - ASSISTANT SECRETARY JULIUS KATZ

1. THE EFFECT OF EEC NON-PARTICIPATION IN AN ISA WILL DEPEND ON THE SIZE OF EEC SURPLUSES AND EEC MARKETING POLICIES. WHILE THE EEC IS LARGELY AN EXPORTER OF REFINED SUGAR, ITS PRODUCTION AND MARKETING POLICIES DO AFFECT, INDIRECTLY IF NOT DIRECTLY, THE WORK FREE MARKET FOR RAW SUGAR.

2. A REVIEW OF HISTORICAL PRODUCTION, CONSUMPTION, IMPORT, AND EXPORT DATA OF THE EEC INDICATES THAT FAILURE OF THE EEC TO JOIN THE ISA OR CONTRIBUTE IN A POSITIVE WAY TOWARD STABILIZATION OF THE WORLD FREE MARKET WOULD HAVE A DE-STABILIZING EFFECT ON THE WORLD MARKET AND THE OPERATION OF AN ISA, ESPECIALLY IF THE EEC ELECTS TO SHIP SUBSTANTIAL QUANTITIES OF SUGAR TO THE FREE MARKET WHEN WORLD SUPPLIES ARE ABUNDANT. IT HAS NOT BEEN UNCOMMON FOR EEC PRODUCTION AND EXPORTS

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TO VARY BY .5 TO 1.0 MILLION TONS. EEC EXPORTS TO THE FREE MARKET SINCE 1970 HAVE FLUCTUATED BY 700,000 TONS IN THE SPAN OF ONE YEAR.

3. AN ANALYSIS OF THE IMPACT OF AND POTENTIAL FOR EEC EXPORTS TO THE FREE MARKET HAS BEEN COMPLICATED BY THREE YEARS OF POOR CROPS. EVEN THOUGH SUGARBEET ACREAGE IN

THE EEC HAS INCREASED BY 18 PERCENT SINCE 1974, PRODUCTION HAS INCREASED ONLY marginally.

4. PROJECTIONS OF THE EXPORT POTENTIAL OF THE EEC FOR 1977/78 RANGE FROM 1.9 TO 3.2 MILLION TONS. IF YIELDS ARE HIGH, THE EEC POTENTIAL WILL INCREASE BY AN ESTIMATED .7 TO 1.4 MILLION TONS. CONVERSELY, ANOTHER POOR CROP OF ABOUT 10 MILLION TONS WOULD LIKELY RESULT IN ONLY A MARGINAL INCREASE IN THE EEC EXPORT POTENTIAL. EEC PRODUCTION IS EXPECTED, THEREFORE, TO PLAY A SIGNIFICANT ROLE IN THE IMPLEMENTATION AND THE RATE AT WHICH PRICE SUPPORT MECHANISMS INCORPORATION IN THE ISA BEGIN TO OPERATE.

5. SHOULD PRODUCTION IN OTHER MAJOR EXPORTING COUNTRIES FAIL TO REACH PROJECTED LEVELS, THE IMPACT OF A LARGE EEC HARVEST ON THE AGREEMENT WOULD BE MINIMIZED. GOOD CROPS IN BOTH THE EEC AND MEMBER COUNTRIES COULD, IN THE ABSENCE OF EEC MEMBERSHIP, RESULT IN ADDITIONAL STOCK ACCUMULATIONS ON THE PART OF MEMBER COUNTRIES (IF QUOTAS ARE IN EFFECT) AND INCREASED COMPETITION IN THE FREE MARKET FROM EEC SUGAR.

6. WITH THE EXCEPTION OF SOME SUGARBEET AREAS IN THE UNITED STATES MOISTURE AND HARVEST CONDITIONS AROUND THE WORLD ARE FAVORABLE. EXCESS MOISTURE IN THE USSR IS SLOWING USSR SPRING PLANTINGS.

7. OPTIONS IN THE EVENT OF EEC NON-PARTICIPATION APPEAR LIMITED OFFICIAL USE

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TO PIVOT ON THE FIVE OUTLINED BELOW:

(1) ACCEPT THE REALITY THAT AN ISA WITHOUT EEC MEMBERSHIP OR SUPPORT WOULD BE WEAKENED, AND SUBJECT TO STRESS WHEN EEC AND WORLD PRODUCTION EXCEED CONSUMPTION BY A SIGNIFICANT QUANTITY. FURTHER, THAT THE RESPONSE OF PRICES TO "TRIGGER POINTS" PROVIDED FOR IN THE AGREEMENT MAY BE DISTORTED, AND THEREFORE FOUND TO BE A RECURRING PROBLEM FOR THE COUNTRIES.

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R 121321Z MAY 77  
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DEPT FOR EB - ASSISTANT SECRETARY JULIUS KATZ

(II) SEEK THROUGH A SPECIAL ARTICLE OR ARTICLES TO PROHIBIT IMPORTS FROM THE EEC BY MEMBER COUNTRIES. THIS STEP WOULD BE COUNTER TO OUR POSITION ON IMPORT RESTRICTIONS PUT FORWARD, AND COULD LEAD TO NON-PARTICIPATION BY SOME COUNTRIES. MAJOR IMPORTERS OF EEC SUGAR AND VOLUMES OF SUGAR IMPORTED IN 1975 ARE AS FOLLOWS:

| COUNTRY         | 1,000 TONS |
|-----------------|------------|
| ALGERIA         | 67.0       |
| GHANA (&)       | 16.9       |
| HUNGARY (&)     | 12.7       |
| INDONESIA       | 12.7       |
| IRAN            | 13.9       |
| ISRAEL          | 17.9       |
| IVORY COAST (&) | 19.1       |
| LEBANON (&)     | 19.1       |
| MAURITANIA      | 13.3       |
| NIGERIA (&)     | 80.5       |

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|                 |       |
|-----------------|-------|
| NORWAY (&)      | 87.9  |
| SAUDI ARABIA    | 34.7  |
| SWITZERLAND (&) | 130.0 |
| TUNISIA (&)     | 41.0  |
| TURKEY          | 30.4  |
| YUGOSLAVIA      | 12.5  |
| OTHER COUNTRIES | 92.2  |
| TOTAL           | 701.8 |

(&) MEMBER OF 1968 ISA AGREEMENT

AS INDICATED, ABOUT 58 PERCENT OF THE EEC'S 1975 EXPORTS WERE TO COUNTRIES WHICH WERE MEMBERS OF THE 1968 ISA. IT SHOULD ALSO BE NOTED THAT THE USSR IMPORTED ABOUT 300,000 TONS OF SUGAR FROM THE EEC IN 1976.

(III) ARTICLE 47 PROPOSED BY THE US PROPOSES A LIMITATION ON IMPORTS FROM NON-MEMBERS TO LEVELS REPRESENTATIVE OF A BASE PERIOD, I.E., 1974-76. THIS LIMITATION WOULD NOT APPLY IN A HIGH PRICE SITUATION (ABOVE X PLUS 8). THIS POSITION PERMITS THE CONTINUATION OF HISTORICAL TRADING RELATIONSHIPS, WHILE LIMITING THE EXPANSION OF SHIPMENTS TO MEMBER COUNTRIES. SOME ALLOWANCE FOR INCREASED DEMAND DUE TO POPULATION GROWTH AND CHANGES IN INTERNAL STOCK POLICIES COULD BE PERMITTED WITHOUT IMPEDING THE AGREEMENT IF DEEMED APPROPRIATE. THIS POSITION WHILE CONTAINING EEC EXPORTS TO MEMBER COUNTRIES WOULD SIMULTANEOUSLY PERMIT PARTICIPATION IN AN ISA BY COUNTRIES TRADING WITH THE EEC, AND PLACE A CAP -- ILLUSORY IF NOT REAL -- ON EEC EXPORTS. THE EFFECTIVENESS OF THIS PLAN WOULD DEPEND ON THE EXTENT OF CHEATING BY COUNTRIES IN THE AGREEMENT.

(IV) SEEK FROM THE EEC A COMMITMENT THAT THEY WILL LIMIT SALES OF EEC SUGAR TO THE FREE MARKET DURING PERIODS WHEN SPECIAL STOCKING MEASURES AND QUOTAS ARE IN EFFECT AS A CONCILIATORY RECOGNITION OF THE FACT THAT STABILITY LIMITED OFFICIAL USE

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OF THE WORLD MARKET WILL BENEFIT THE EEC AS WELL AS MEMBER COUNTRIES. WHILE THIS POSITION COULD DAMPEN THE ENTHUSIASM OF OTHER EXPORTING COUNTRIES AND OFFER ADDITIONAL STOCKS TO IMPORTING COUNTRIES DURING PERIODS OF HIGHER PRICES, IT WOULD INCREASE THE EFFECTIVENESS OF ISA MEASURES DEFENDING THE FLOOR PRICE. IT WOULD ALSO PROVIDE THE EEC A VEHICLE FOR CONVEYING INTERNALLY AND TO THE WORLD A REALIZATION THAT EEC EXPORT POLICY MUST BE MORE RESPONSIVE TO THE INTEREST OF OTHER COUNTRIES.

(V) POSITIONS 3 AND 4 TOGETHER FORM A 5TH POSITION. SUCH A POSITION OFFERS THE BENEFITS OF 4 AND SOME PROTECTION TO EXPORTING INTEREST SHOULD THE EEC FIND IT UNABLE TO ABIDE BY A COMMITMENT TO OPERATE A STOCKING PROGRAM WITHIN THE PRICE PARAMETERS OF AN ISA.

8. CONCLUSION: WHILE NO RECOMMENDATION IS MADE AT THIS TIME, THE US DEL IS WORKING WITH OTHER INTERESTED CONFERENCE PARTICIPANTS AND THE EC TO TRY TO PROVIDE A SPECIAL NICHE FOR THE EC IN AN AGREEMENT IN GENERAL CON-

FORMITY WITH OPTION IV. AT THE SAME TIME WE ARE CON-  
TINUING WITH OUT APPROACH TO NON-MEMBERS IN OPTION III.SORENSEN

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## Message Attributes

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**Channel Indicators:** n/a  
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